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Diane Zipursky
Washington Counsel

NBC

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JUL 8 1996

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

July 8, 1996

DOCKET FILE COPY ORIGINAL

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W.
Room 222
Washington, D.C. 20554

Re: Ex Parte Presentation in MM Docket No. 95-92
Network/Affiliate Programming Practices

Dear Mr. Caton:

The attached letters were sent today to Commissioners Chong and Ness.

Respectfully yours,

Diane Zipursky

cc: Commissioner Chong
Commissioner Ness

No. of Copies rec'd 0+1
List ABCDE

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New York, NY 10112
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A Division of
National Broadcasting
Company, Inc.

Neil S. Braun
President

NBC TELEVISION NETWORK

July 2, 1996

Commissioner Rachelle Chong
Federal Communications Commission
1919 M Street, N.W.
Washington, D.C. 20554

Re: Network/Affiliate Programming Practices
MM Docket No. 95-92

Dear Commissioner Chong:

I was sorry to have missed the opportunity to meet with you during my visits to the Commission on June 14. I was able to have a very productive meeting with Jane Mago, in which I tried to explain the realities of the network/affiliate relationship in today's marketplace.

Apropos of that discussion, I thought you would be interested in portions of the June 20 Merrill Lynch report on the broadcast industry, prepared by the well-known financial analyst, Jessica Reif. The material beginning on the second page of the report, which I've highlighted for your convenience, confirms what I told Jane: in a world of four or more broadcast networks, and especially since the Fox/New World deal in May, 1994, station owners are "in the catbird's seat" when it comes to negotiating affiliation arrangements. Driven by the imperative of national distribution, networks are giving both large and small stations long-term affiliation deals with significant increases in the compensation compared to what was paid as recently as two years ago. This is clearly not an area where the public interest requires the Commission to maintain regulations that constrain normal, arm's length, marketplace negotiations.

I would be happy to discuss these issues with you or your staff further, based on my personal experience of renegotiating virtually all NBC's affiliation contracts over the past two years.

Sincerely,

Neil Braun

cc w/encl: Jane Mago

Nell D.
Bob F. / Tom

Merrill Lynch

Broadcast Industry

20 June 1996

Sign-On to the Rising Value of TV Station Groups, With No Sign-Off in Sight

INVESTMENT HIGHLIGHTS:

- Private market purchase price multiples have risen sharply from the cyclical trough of 7x-9x EBITDA in 1991-92 to today's 12x-14x. Multiples in 1991-92 were depressed by an advertising downturn, exacerbated by the Persian Gulf war and HLT restrictions on bank lending.
- The increase in broadcast TV multiples is due to a better structural environment — reflecting fundamental *regulatory reform* and the launch of *new over-the-air networks* — *notwithstanding higher cable ratings and* semi-sluggish ad growth. A more solid economic system for local TV stations (i.e., higher affiliate compensation, LMAs, etc.) should help to support multiples during any cyclical downturn in advertising.
- The Telecom Act of 1996 relaxed TV ownership rules, resulting in a wave of consolidation, higher cash flow growth and rising margins. Further regulatory reform is coming, with the repeal of PTAR and the likely legalization of VHF-UHF and UHF-UHF duopolies in a single market.
- TV spectrum is getting scarce. In affiliate negotiations, the balance of power has shifted from TV networks to TV stations, as a crowd of new networks fight for distribution: Fox, UPN and WB.
- Insiders continue to buy, despite higher multiples, with the intent of raising margins and/or controlling distribution. In May, NBC agreed to buy two of its affiliates, a UHF station in San Diego and a VHF in Birmingham, Alabama, from New World Communications for $425 million, or 14x-15x 1996E OCF. Notably, NBC had already locked up its distribution on both of these stations under 10-year affiliation deals signed in 1995.
- Reflected in its high and relatively stable cash-flow margins, TV station economics are fundamentally much better and more consistent than the broadcast TV network business.
- We expect a lengthy period of consolidation, lasting three or four years, in the television industry, resulting in the formation of several supergroups of TV station operators and accelerating growth for those station groups in the acquiring mode.

DISCUSSION:

Free, over-the-air television stations, when aggregated, account for nearly 70% of total-day television viewing, despite the recent rise in cable ratings. Television stations generate high operating margins, averaging 40%-45% and peaking at 55%-60%, which in turn provides for exceptional free cash flow generation. For stations affiliated with the three traditional networks, lofty cash-flow margins reflect 110 weekly hours of big-budget entertainment, news and sports programming that is provided by national networks to local stations at no direct operating cost. In addition, broadcast television stations dominate the local news category, providing product differentiation from cable channels and insulation from the vagaries of network primetime ratings. Local news operations, in addition, provide a platform that is capable of promoting the network's regularly scheduled programming. *Television stations lacking strong local news broadcasts* usually register poor sign-on to sign-off audience shares. Effective this fall, **the FCC has repealed its Prime Time Access Rule (PTAR)**. This reform will now permit network affiliates in the Top 50 markets to air off-network sitcoms (e.g., reruns of *Seinfeld* and *Home Improvement*) in the access hour, the hour preceding *primetime, and should strengthen program quality and ratings during a lucrative local time period.*

Demand for local television advertising revenue has strengthened during 1996's second quarter, boosted by the Atlanta Olympics and political elections. **Full-year 1996 growth is expected to be in the 7%-9% range,**

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reaching $20 billion in TV station advertising. Local TV advertising typically has a stop-and-start growth pattern that is tied to the biennial cycle of the Summer Olympics/Presidential elections and the Winter Olympics/mid-term Congressional elections. Since 1991, local TV advertising has grown at a 6.5% compound annual rate, modestly better than nominal GDP growth.

Television station ownership rules were significantly loosened by the Telecom Act of 1996 The Telecom bill repealed the national 12-station cap on the number of TV stations that a single entity may own, while raising the national audience limit from 25% to 35% coverage of total U.S. television households (TV HHs). Consequently, a single TV station group operator may now own an unlimited number of television stations, provided that those stations operate in local markets that cumulatively contain no more than 35% of the TV HHs in the country.

TV group operators focused on midsize markets are big beneficiaries of the repeal of the 12-station cap. Prior to the 1996 Telecom Act, government regulation created an artificially fragmented ownership structure, enforced by the 12-station cap. There are 211 DMAs (Designated Market Areas), or local television markets, as measured by the Nielsen audience ratings system. Most of these markets are small. More than 150 of these local TV markets have fewer than 480 thousand homes per market, representing coverage of less than 0.5% of the total 95.9 million HHs located in the U.S. As a result, in theory, **it is now possible for a single TV group operator to chain together 70 or more television markets, before hitting the 35% limit.** In addition, under current FCC rules, television stations transmitting in the UHF band (ultra high frequency, channels 14-69) result in the attribution of only 50% of the TV HHs in the relevant market. Consequently, a group operator who owns only UHF stations could potentially reach up to 70%, instead of 35%, of the homes in the U.S., aided by the elimination of the 12-station limit.

Among others, the first television station group operators to surpass the old 12 station cap were: Gannett/Multimedia (15 stations, 14% of U.S. HHs), Westinghouse/CBS (14/31%), Sinclair Broadcast Group/River City (21/15%) and Silver King (24/42%, including minority interests). These deals provide clear cut efficiency gains on the cost side of the equation, including added negotiating leverage in purchases of non-network (i.e., syndicated) programming, national spot sales commissions and network affiliate compensation.

Broadcast television networks have strong incentives to expand their owned and operated stations ("O&Os"). Expanded TV station ownership captures more of the economic value created by an over-the-air network. Network affiliates bear little of the risk associated with developing or producing hit entertainment programming (totaling more than $1.5 billion annually for each major network) or acquiring the rights to major sporting events. Television stations have significantly higher operating margins and markedly less volatility than television networks, whose operating margins rarely surpass 20%. By increasing its O&O reach and securing more distribution, a network significantly improves its capability to launch extra hours of internally produced and owned programming (a brand-new network profit center with the November 1995 sunset of the FCC's financial interest and syndication rules), as well as reducing its compensation paid to affiliates to clear programming. In addition, a network improves its competitive position to bid on major sports rights or blockbuster programming, as larger distribution platforms capture a bigger share of the revenue generated by these events. These blockbuster programming events, such as the NFL and the Academy Awards, are increasingly important as cable ratings rise. The Fox network, for example, faces tougher competition in the next NFL auction, in part because of the expanded reach of the Westinghouse/CBS station group.

In the realm of network-affiliate relations, the big bang occurred May 23, 1994. Fox Television, owned by News Corp., reached an agreement with New World Communications, which dropped its long-standing network affiliations with ABC, CBS and NBC in favor of Fox. Ultimately, New World switched ten of its major-market owned and operated VHF television stations to Fox. This event set off a chain reaction of affiliate switches, as competing over-the-air networks scrambled to replace lost affiliates and ensure national household reach of virtually 100%. To date, more than 100 television stations in over 40 markets have changed affiliations and these switches continue to ripple along today. Operators of well-positioned television station groups are receiving long-term affiliate contracts at substantially higher rates of compensation, which is paid by the three traditional networks in order to gain local clearances for national program schedules. The Fox network pays little or no affiliate comp, but instead allows its affiliates to retain and sell a greater number of commercial spots during network programming. To fight off the Fox affiliate raid, the total compensation paid by ABC, CBS and NBC rose from an estimated $350 million in 1994 to nearly $700 million in 1996, which is pure profit for affiliates, boosting the value of local television stations. The older three major networks initially focused their efforts on securing long-term affiliate distribution in big markets, but now new contracts

(Continued)

and higher comp levels are beginning to boost operating margins for network affiliates in smaller markets. On the other hand, three-network operating profits *in toto* have rarely ever exceeded $600 million.

In a world of four or more over-the-air networks, station group operators are obviously in the catbird's seat. Strong distribution via local affiliated television stations is imperative for national broadcast networks in the ever escalating battle for viewers. Although the average home receives 40 television channels, only ABC, CBS and NBC penetrate 98% of U.S. homes, as roughly one-third of the population still does not subscribe to cable or DBS services. Powerful broadcast signals, particularly VHF signals (very high frequency, channels 2-13) offer a distinct competitive advantage, typically providing better geographic reach, better picture clarity and thus better ratings. In addition, even among channel-surfing viewers, channels 2-13 are traversed more frequently and thus offer better spots for program sampling than more remote outposts. With better market coverage and sampling, VHF stations reach more households and attract higher shares of audience and advertising. The competitive edge provided by VHF signals is self-evident in audience delivery. On average, for network-affiliated television stations of the Big Three, VHF stations deliver household ratings that are 25%-30% greater than UHF stations. Under the old 12 station cap, network O&Os were concentrated in the Top 5 markets, representing just over 20% of U.S. TV households. We expect the broadcast networks to focus on acquisitions in the Top 50 markets, particularly those markets with relatively few high quality broadcast signals.

VHF station value has climbed. There are three or fewer commercial VHF signals in 32 of the Top 50 U.S. markets and 75 of the Top 100. These so-called "three-V" markets include the major metros of Detroit (market rank No. 9), Atlanta (No. 11), Cleveland (No. 12) and Tampa (No. 15). The value of VHF outlets in three-V markets has soared in the musical chairs of a four-network marketplace, as Fox has aggressively fought to fortify its distribution system.

Formerly found wanting, UHF spectrum value has climbed. Fox itself now faces upstart competitors, the WB, UPN and Univision television networks, looking to establish distribution footholds. Both UPN (United Paramount) and WB (Warner Bros.) debuted in January 1995 and currently program four and five primetime hours, respectively, each week. Both networks produce high-budget original programming, capable of attracting mass audience. UPN is wholly owned by the Chris-Craft Group, including United Television, and is aligned with Viacom's Paramount, which holds an option to purchase a 50% interest in the UPN network but not the Chris-Craft/United Television stations. The WB is owned and programmed by Time-Warner's Warner Bros. studio, using the Tribune station group both as the primary distribution platform and as an investor owning a 12% interest today with options for up to 24% ownership. On the distribution front, UPN holds a clear edge, with 152 affiliated stations covering 93% of the country. The WB has 82 affiliates reaching 83% that is supplemented by some interconnected cable distribution in small markets. However, helped by its rapidly rising ratings, WB is now making a concerted effort to recruit UPN affiliates. Univision is a quickly expanding over-the-air network airing Hispanic programming. In addition, Silver King Communications run by Barry Diller, with the financial support of Tele-Communications Inc., has announced its intention to start up yet another broadcast network, using its base of 12 UHF stations reaching over 30% of the U.S. population.

LMAs today. Duopolies tomorrow? Within a single local market, many TV group operators are aggressively pursuing a multichannel strategy via LMAs or local marketing agreements. Under an LMA, a station operator leases the broadcast signal of another station to obtain a second channel and revenue stream. The LMA structure circumvents the FCC's television duopoly rule, which prevents a single entity from owning two or more TV stations in a single market. LMAs lower the cost structure of a stand-alone station and permit the time-shifting of programming, in order to lift cumulative ratings and advertising. In certain dayparts, operators of VHF-UHF LMAs that are affiliated with Fox and UPN, or Fox and WB, have found that the combined ratings of two stations may outperform a stand-alone ABC or CBS affiliate, while also benefiting from double-runs of entertainment and news programming. Broadcasters with more than one channel are better positioned to compete more effectively with cable, radio and other content providers. All existing LMA arrangements sanctioned by the FCC have been grandfathered by the Telecom Act and LMA contracts often contain option-to-buy provisions in the event the FCC relaxes its duopoly rules.

Although television duopolies are still prohibited, **the Telecom Act requires the FCC to conduct a review of its duopoly rules.** The FCC's report and order on duopoly was scheduled to occur during the fourth quarter of 1996; however, it may be delayed into 1997, becoming part and parcel of the horse-trading involved in the FCC's desire to increase educational children's programming and reduce violence on TV. **Any relaxation of the duopoly rule should spark a spree of UHF television station acquisitions.** At present, we believe that the Commission is likely to relax its duopoly rules and permit VHF-UHF combos as well as UHF-UHF combos, in big markets where there are a sufficient number of commercial signals.

The Telecom Act also relaxed the one-to-a-market rule, prohibiting TV and radio cross-ownership in the same market. Under previous policy, the FCC granted waivers automatically in Top 25 markets. The Telecom Act instructs the FCC to extend its waiver policy to any of the Top 50 markets. As a result, Jacor Communications is able to combine one VHF station and a cluster of six radio stations in the midsize market of Cincinnati, with a national DMA market rank of 29, and thus create a true knockout block of spectrum.

The economics of TV station acquisitions received an assist from the Revenue Reform Act of 1993, which made goodwill a tax deductible item, amortized over 15 years, for asset purchases. TV stations have few hard assets, and goodwill and the FCC license often represent up to 80%-90% of the purchase price.

The switch from analog to digital signal transmission, and spectrum auctions. Under the FCC's current plan, which is subject to Congressional review, broadcasters would be allowed to transmit both analog and digital ("ATV", or advanced TV) signals for a 15-year period transition period, as consumers convert their TV sets from analog to digital receivers. Each broadcaster's second signal is "loaned" spectrum and at the end of the transition period the analog spectrum is returned to the government and sold by auction. Competing proposals have suggested mandating a 10 year transition period or a shutdown of analog broadcasting once digital receivers pass 80% household penetration. Almost all of the spectrum designated for ATV is on the UHF band, which is superior to VHF for digital transmission. Under the current analog transmission standard, one full power broadcast channel uses six megahertz of spectrum. Digital TV transmission would allow broadcasters to transmit either one so-called high definition signal or four or more standard-definition channels simultaneously over six megahertz of spectrum. Consequently, digital transmission will eventually provide a slug of equal quality channel capacity, eliminating the competitive advantage of current VHF outlets.

Lawmakers continue to float proposals to raise Federal revenue by auctioning off upfront the spectrum that is to be returned to the government. The difference between the original FCC transition plan and the upfront auction is not whether but when the auction occurs. Broadcast lobbyists have at the moment deflected this threat by positioning the upfront auction as a threat to the survival of free TV, which is enjoyed by today's 33 million non-cable households. Other governmental threats include a ban on beer and wine advertising and the auctioning off of analog TV spectrum now used by non-commercial public television.

The opportunities presented by deregulation, and the new strategic clout of station group ownership, has attracted an array of entrepreneurial talent. Gary Chapman of LIN Television, Barry Diller of Silver King, Lowry Mays of Clear Channel Communications, Gerald Perenchio of Univision, David Smith of Sinclair and Vincent Young of Young Broadcasting, among others.

Free cash flow machines. Network affiliates have limited cash requirements for entertainment and sports programming or for capital expenditures. With modest revenue growth of 6.5% and an average margin of 44%, **TV stations can generate levered free cash flow growth from 15% (with 50% debt financing to purchase price) to 22% (100% debt financed, for large underleveraged acquirers).** For aggressive managers, who quickly lower the purchase price multiple to 10x BCF, after-tax cash returns of roughly 15% are possible, under an asset purchase scenario and a terminal multiple of 10x.

Trends in TV Station Group Multiples

ML estimates	1986	1988	1990	1992	1994	1996
Private Market OCF Multiples	11x-13x	10x-12x	8x-9x	7x-9x	10x-12x	12x-14x
Public Market OCF Multiples	9x-10x	9x-10x	8x-9x	7x-8x	10x-11x	11x-12x

Industry: Media - Broadcasting

Investment Strategy Industry Weighting: INCOME(=),GROWTH(-),CAPITAL APPRECIATION(+)

Technical Analysis Industry Rating: AA

[NWS] MLPF&S was a manager of the most recent public offering of securities of this company within the last three years.

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A Division of
National Broadcasting
Company, Inc.

Neil S. Braun
President

NBC TELEVISION NETWORK

July 2, 1996

Commissioner Susan Ness
Federal Communications Commission
1919 M Street, N.W.
Washington, D.C. 20554

Re: Network/Affiliate Programming Practices
MM Docket No. 95-92

Dear Commissioner Ness:

It was a pleasure to meet with you on June 14 to discuss the realities of the network/affiliate relationship in today's marketplace.

Apropos of that discussion, I thought you would be interested in portions of the June 20 Merrill Lynch report on the broadcast industry, prepared by the well-known financial analyst, Jessica Reif. The material beginning on the second page of the report, which I've highlighted for your convenience, confirms what I was describing at our meeting: in a world of four or more broadcast networks, and especially since the Fox/New World deal in May, 1994, station owners are "in the catbird's seat" when it comes to negotiating affiliation arrangements. Driven by the imperative of national distribution, networks are giving both large and small stations long-term affiliation deals with significant increases in compensation compared to what was paid as recently as two years ago. This is clearly not an area where the public interest requires the Commission to maintain regulations that constrain normal, arm's length, marketplace negotiations.

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Sincerely,

Neil Braun

Neil D.
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Merrill Lynch

Broadcast Industry

20 June 1996

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INVESTMENT HIGHLIGHTS

- Private market purchase price multiples have risen sharply from the cyclical trough of 7x-9x EBITDA in 1991-92 to today's 12x-14x. Multiples in 1991-92 were depressed by an advertising downturn, exacerbated by the Persian Gulf war and HLT restrictions on bank lending.
- The increase in broadcast TV multiples is due to a better structural environment — reflecting fundamental regulatory reform and the launch of new over-the-air networks — notwithstanding higher cable ratings and semi-sluggish ad growth. A more solid economic system for local TV stations (i.e., higher affiliate compensation, LMAs, etc.) should help to support multiples during any cyclical downturn in advertising.
- The Telecom Act of 1996 relaxed TV ownership rules, resulting in a wave of consolidation, higher cash flow growth and rising margins. Further regulatory reform is coming, with the repeal of PTAR and the likely legalization of VHF-UHF and UHF-UHF duopolies in a single market.
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DISCUSSION:

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reaching $20 billion in TV station advertising. Local TV advertising typically has a stop-and-start growth pattern that is tied to the biennial cycle of the Summer Olympics/Presidential elections and the Winter Olympics/mid-term Congressional elections. Since 1991, local TV advertising has grown at a 6.5% compound annual rate, modestly better than nominal GDP growth.

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(Continued)

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VHF station value has climbed. There are three or fewer commercial VHF signals in 32 of the Top 50 U.S. markets and 75 of the Top 100. These so-called "three-V" markets include the major metros of Detroit (market rank No. 9), Atlanta (No. 11), Cleveland (No. 12) and Tampa (No. 15). The value of VHF outlets in three-V markets has soared in the musical chairs of a four-network marketplace, as Fox has aggressively fought to fortify its distribution system.

Formerly found wanting, UHF spectrum value has climbed. Fox itself now faces upstart competitors, the WB, UPN and Univision television networks, looking to establish distribution footholds. Both UPN (United Paramount) and WB (Warner Bros.) debuted in January 1995 and currently program four and five primetime hours, respectively, each week. Both networks produce high-budget original programming, capable of attracting mass audience. UPN is wholly owned by the Chris-Craft Group, including United Television, and is aligned with Viacom's Paramount, which holds an option to purchase a 50% interest in the UPN network but not the Chris-Craft/United Television stations. The WB is owned and programmed by Time-Warner's Warner Bros. studio, using the Tribune station group both as the primary distribution platform and as an investor owning a 12% interest today with options for up to 24% ownership. On the distribution front, UPN holds a clear edge, with 152 affiliated stations covering 93% of the country. The WB has 82 affiliates reaching 83% that is supplemented by some interconnected cable distribution in small markets. However, helped by its rapidly rising ratings, WB is now making a concerted effort to recruit UPN affiliates. Univision is a quickly expanding over-the-air network airing Hispanic programming. In addition, Silver King Communications run by Barry Diller, with the financial support of Tele-Communications Inc., has announced its intention to start up yet another broadcast network, using its base of 12 UHF stations reaching over 30% of the U.S. population.

LMAs today. Duopolies tomorrow? Within a single local market, many TV group operators are aggressively pursuing a multichannel strategy via LMAs or local marketing agreements. Under an LMA, a station operator leases the broadcast signal of another station to obtain a second channel and revenue stream. The LMA structure circumvents the FCC's television duopoly rule, which prevents a single entity from owning two or more TV stations in a single market. LMAs lower the cost structure of a stand-alone station and permit the time-shifting of programming, in order to lift cumulative ratings and advertising. In certain dayparts, operators of VHF-UHF LMAs that are affiliated with Fox and UPN, or Fox and WB, have found that the combined ratings of two stations may outperform a stand-alone ABC or CBS affiliate, while also benefiting from double-runs of entertainment and news programming. Broadcasters with more than one channel are better positioned to compete more effectively with cable, radio and other content providers. All existing LMA arrangements sanctioned by the FCC have been grandfathered by the Telecom Act and LMA contracts often contain option-to-buy provisions in the event the FCC relaxes its duopoly rules.

Although television duopolies are still prohibited, **the Telecom Act requires the FCC to conduct a review of its duopoly rules.** The FCC's report and order on duopoly was scheduled to occur during the fourth quarter of 1996; however, it may be delayed into 1997, becoming part and parcel of the horse-trading involved in the FCC's desire to increase educational children's programming and reduce violence on TV. **Any relaxation of the duopoly rule should spark a spree of UHF television station acquisitions.** At present, we believe that the Commission is likely to relax its duopoly rules and permit VHF-UHF combos as well as UHF-UHF combos, in big markets where there are a sufficient number of commercial signals.

The Telecom Act also relaxed the one-to-a-market rule, prohibiting TV and radio cross-ownership in the same market. Under previous policy, the FCC granted waivers automatically in Top 25 markets. The Telecom Act instructs the FCC to extend its waiver policy to any of the Top 50 markets. As a result, Jacor Communications is able to combine one VHF station and a cluster of six radio stations in the midsize market of Cincinnati, with a national DMA market rank of 29, and thus create a true knockout block of spectrum.

The economics of TV station acquisitions received an assist from the Revenue Reform Act of 1993, which made goodwill a tax deductible item, amortized over 15 years, for asset purchases. TV stations have few hard assets, and goodwill and the FCC license often represent up to 80%-90% of the purchase price.

The switch from analog to digital signal transmission, and spectrum auctions. Under the FCC's current plan, which is subject to Congressional review, broadcasters would be allowed to transmit both analog and digital ("ATV", or advanced TV) signals for a 15-year period transition period, as consumers convert their TV sets from analog to digital receivers. Each broadcaster's second signal is "loaned" spectrum and at the end of the transition period the analog spectrum is returned to the government and sold by auction. Competing proposals have suggested mandating a 10 year transition period or a shutdown of analog broadcasting once digital receivers pass 80% household penetration. Almost all of the spectrum designated for ATV is on the UHF band, which is superior to VHF for digital transmission. Under the current analog transmission standard, one full power broadcast channel uses six megahertz of spectrum. Digital TV transmission would allow broadcasters to transmit either one so-called high definition signal or four or more standard-definition channels simultaneously over six megahertz of spectrum. Consequently, digital transmission will eventually provide a slug of equal quality channel capacity, eliminating the competitive advantage of current VHF outlets.

Lawmakers continue to float proposals to raise Federal revenue by auctioning off upfront the spectrum that is to be returned to the government. The difference between the original FCC transition plan and the upfront auction is not whether but when the auction occurs. Broadcast lobbyists have at the moment deflected this threat by positioning the upfront auction as a threat to the survival of free TV, which is enjoyed by today's 33 million non-cable households. Other governmental threats include a ban on beer and wine advertising and the auctioning off of analog TV spectrum now used by non-commercial public television.

The opportunities presented by deregulation, and the new strategic clout of station group ownership, has attracted an array of entrepreneurial talent. Gary Chapman of LIN Television, Barry Diller of Silver King, Lowry Mays of Clear Channel Communications, Gerald Perenchio of Univision, David Smith of Sinclair and Vincent Young of Young Broadcasting, among others.

Free cash flow machines. Network affiliates have limited cash requirements for entertainment and sports programming or for capital expenditures. With modest revenue growth of 6.5% and an average margin of 44%, **TV stations can generate levered free cash flow growth from 15% (with 50% debt financing to purchase price) to 22% (100% debt financed, for large underleveraged acquirers).** For aggressive managers, who quickly lower the purchase price multiple to 10x BCF, after-tax cash returns of roughly 15% are possible, under an asset purchase scenario and a terminal multiple of 10x.

Trends in TV Station Group Multiples

ML estimates	1986	1988	1990	1992	1994	1996
Private Market OCF Multiples	11x-13x	10x-12x	8x-9x	7x-9x	10x-12x	12x-14x
Public Market OCF Multiples	9x-10x	9x-10x	8x-9x	7x-9x	10x-11x	11x-12x

Industry: Media - Broadcasting
Investment Strategy Industry Weighting: INCOME(=),GROWTH(+),CAPITAL APPRECIATION(+)
Technical Analysis Industry Rating: AA

[NWS] MLPF&S was a manager of the most recent public offering of securities of this company within the last three years.